The future of financial reporting 2013: still grappling with major problems

A discussion paper based on the British Accounting Association Financial Accounting and Reporting Special Interest Group (FARSIG) Colloquium, 11 January 2013.

About ACCA

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Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

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About FARSIG

The Financial Accounting and Reporting Special Interest Group (FARSIG) is a group set up under the aegis of the British Accounting and Finance Association (BAFA). The main purpose of FARSIG is to further the objectives of BAFA and hence to:

- encourage research and scholarship in financial accounting and reporting
- establish a network of researchers and teachers in financial accounting and reporting
- enhance the teaching of financial accounting and reporting
- provide support for PhD students in financial accounting and reporting
- develop closer links with the accounting profession in order to inform policy
- publish a newsletter and organise targeted workshops
- develop and maintain relationships with the BAFA and the professional accountancy institutes
- provide a forum for the exchange of ideas among accounting academics.

The 2013 symposium, which is one of an annual series that started in 2007, provides a forum for academic, practitioner and policy-orientated debate. Such forums are useful for expressing and developing rounded opinion on the current meta-issues facing financial reporting. Furthermore, they serve to illustrate the policy relevance and impact of current academic thinking and outputs in accordance with the Economic and Social Research Council (ESRC)/Advanced Institute of Management (AIM) calls for relevant and rigorous research through a combination of practitioner and academic perspectives.

The authors would like to express their thanks to the five main contributors, both for their presentations and for their subsequent time and comments during the development of this discussion paper, especially for checking the commentary on their presentations. The authors have tried to capture faithfully the flavour of the original presentations.. Thanks are also due to ACCA for hosting the 2013 symposium, and for its support in the publication of the discussion report. Finally, should any readers wish to learn more about FARSIG or to become FARSIG members, please contact either of the authors.

Mike Jones is chairman of, and Richard Slack, secretary to, the FARSIG Committee.

The future of financial reporting 2013: still grappling with major problems

Michael John Jones
Professor of Financial Reporting
University of Bristol

michaeljohn.jones@bristol.ac.uk

Richard Slack
Reader in Accounting
Durham University Business School

richard.slack@durham.ac.uk

Foreword

ACCA was pleased to host again the FARSIG annual discussion of the future of financial reporting. The meeting continues to provide a valuable discussion between interested parties – principally academics studying financial reporting and those involved with its practical application in way or another. The line of speakers this year reflected that with a couple of regulators, an academic, an analyst and a professional accountant. The audience at the event seems to reflect that mixture as well.

Financial reporting continues to develop in the shadow of the financial crisis. The title of this 2012 discussion "Still grappling with major problems" might seem to take up the theme of the continuing debate over how reporting should be altered for the lessons of the crisis. I think that is a fair assessment. The pace of change and agreement to change means that five years on we are still finalising the accounting changes – IFRS9 the major new standard that has been developed by the IASB in response to the crisis is still being got into final form. Thinking ourselves back to the heat of the crisis in 2008/9 we might have expected something sooner. A major delay has been trying to agree on a common solution particularly with the US standard setter. That appears to be headed for failure on impairment of loans at least. On the other hand the response of financial reporting do not seem much behind the responses of prudential regulation, capital adequacy of banks or auditing. The slower progress must reflect also the success of the adoption of IFRS as global standards. The more countries adopt IFRS the harder changing those standards may become.

This FARSIG paper does look back to those continuing issues from the crisis that are not fully resolved in the discussion of banking crises. Equally however it is also looking forward to the new agenda for financial reporting – the conceptual framework and the integration of financial and non-financial reporting.

I have mentioned the success of the global adoption of IFRS and two of the papers examined the limitations of that. One is showing how even after nearly ten years of IFRS that there is a persistence of national flavours of IFRS. The other shows that accounting in the UK, which has adopted IFRS for listed companies, is converging with IFRS for its many other companies while nevertheless retaining significant differences. It claims a future for a national GAAP in a world seemingly adopting global standards.

I am looking forward to the 2014 discussion

Richard Martin
Head of Corporate Reporting, ACCA

1. Introduction

In many ways 2012 was similar to the years that followed the economic and financial crises stemming from events in 2007. There remained economic and political uncertainty about economic growth, national debt burdens and debt defaults, the last heightened more recently, and since the symposium, by the US closedown of government departments (October 2013). Nonetheless, there were also signs of a more sustainable future recovery with, for instance, more positive news from the International Monetary Fund (IMF) over future UK growth, a third quarterly increase in UK GDP and signs of a recovering housing market. All this, seen in context of the turn of the year 2012/13, the time of the symposium, saw the world at a crossroads, experiencing a precarious optimism but still aware of major financial challenges within the UK domestic economy and at both a European and global level. Accounting, in line with this uncertainty, was facing key challenges internationally, such as the global adoption of IFRS, the continued debate over the Conceptual Framework, and concerns about national regulatory environments.

The continuing magnitude and complexity of the effects of the 2007–8 financial crisis in all circles of the economy has, in many ways, produced a unique opportunity for questioning and discussing key issues, and prominent in that debate are the challenges faced by accounting and financial reporting. Against this background, it was fortunate that ACCA could again host an annual symposium to stimulate debate between practitioners and an academic audience. For 2013, those present were rewarded with five excellent presentations from senior members of standard-setting and financial reporting bodies, a 'Big Four' accounting firm, the investment community and academia. This facilitated a high level of personal insight and debate into some of the key issues and challenges facing accounting both at the time and continuing into 2014. No doubt many of the issues raised will still be the subject of debate in the 2014 symposium!

For 2013, the five speakers were:

- Peter Clark, IASB director of research: 'The Conceptual Framework: the next stage'
- Chris Hodge, director of corporate governance, Financial Reporting Council: 'Developments in corporate governance'
- Christopher Nobes, professor of accounting, Royal Holloway, University of London and University of Sydney: 'The persistent survival of national patterns of accounting despite the adoption of IFRS'
- Bruce Packard, investment analyst: 'Banking crises: past present and future'
- Andy Simmonds, partner, Deloitte LLP, and member, Accounting Council: 'Has UK GAAP got a future?'.

As can be seen from the main titles of each presentation, these five contributors discussed a wide range of views on a variety of topics from varied practitioner, standard-setter, regulator and academic perspectives. As usual, after each presentation there was a lively and informed discussion among the symposium delegates.

ISSUES RAISED BY THE SYMPOSIUM

Before the commentaries that follow, some of the key issues that were presented and debated at the symposium are highlighted in Table 1.1. There was a fundamental examination of some of the basics of accounting during the symposium and the subsequent audience discussion. Some of the issues raised and discussed were, in many ways, old favourites that continue to present all parties (practitioners, standard setters and academics, to name a few) with complex challenges, such as IFRS convergence and patterns of national accounting, the Conceptual Framework, measurement issues and the regulatory environment. Although all the speakers gave individual presentations, the issues that they addressed served to provide some emergent common themes of the symposium, as well as linking into themes from earlier years, all of which will be discussed in greater length after the commentaries.

A summary of the key issues addressed in symposia for the past six years is shown in Table 1.1.

As can be seen from the table, the main issues covered in 2013 were: the Conceptual Framework being developed by the International Accounting Standards Board (IASB), the regulatory framework, governance and IFRS adoption and national accounting practices.

Some of the main developments that have occurred during 2012/13 are discussed below. There has been growing concern about accounting and auditing standards. The slow pace of convergence has frustrated accounting practitioners in many countries and has also strengthened the influence of European regulations. Until recently, US Financial Accounting Standards Board (FASB) and IASB had worked closely together attempting to converge US and International Accounting Standards, but the IASB is now leading a more independent path. There are, however, still many areas of divergence. In particular, there is still considerable concern over the divergent FASB and IASB proposals for financial instruments. Already important before the credit crunch, this issue has grown in prominence since. There appear to be significant differences between the IASB and FASB in both measurement and presentation.

The credit crunch and its aftermath have led to a serious questioning of some fundamental issues of regulation, measurement and disclosure. Some of the most important of these are, inter alia, the political nature of standard setting, the need for a global set of standards, the progress of convergence, a reconsideration of the basics of corporate reporting and key problems of financial reporting, such as fair value and stewardship. Many of these issues were directly or indirectly addressed in the symposium. The issues specifically addressed from the symposium are now briefly presented to contextualise the subsequent commentaries on the presentations.

The Conceptual Framework continues to prove contentious . Even the primary objective of financial reporting is still being actively debated. At the root of this is the tension between decision making and stewardship. The latter is now regarded by the IASB as a subset of the former. Thus, the fundamental objective of financial statements is to enable primary users, those making investment decisions, to make relevant choices. This now takes primacy over the more historic notion of decision making and stewardship as dual objectives. Even if this issue could be resolved, which appears unlikely, there remain the underlying issues of recognition and measurement of assets and liabilities. For instance, should there be a single basis of measurement across all assets and liabilities, or should the current multiple bases of measurement continue?

Beyond the Conceptual Framework and the primary purpose of financial statements, international convergence of presentational formats and comparability should be strengthened through adoption of IFRS in an increasing number of countries. In the UK, this has been a requirement for all listed companies from 2005 onwards. Despite greater national IFRS adoption over time, however, in practice there remains disparity of IFRS implementation by reporting entities across different countries. The reasons for this disparity range from issues such as whether to implement full adoption or a standard-by-standard adoption, the optional

Table 1.1: Overview of key symposia themes, 2008–13

2013	2012	2011	2010	2009	2008
Conceptual framework, recognition and measurement Regulatory framework, governance and ‘balanced reporting’ IFRS adoption and national accounting practices Nature and complexity of crises	Asset and liability recognition Measurement, fair value and confidence accounting Regulatory framework and complexity of financial statements Fraud and accounting scandals	Complex financial instruments, asset and liability recognition and measurement Regulatory environment, complexity of financial statements IFRS adoption and political interface Carbon accounting	The role and need for global accounting standards Understandability and usefulness Political concerns Sustainability accounting	Regulatory change The convergence of global standards through IFRS. Fair value Corporate governance Asset securitisation and credit crunch.	Conceptual framework Income measurement Fair value Financial communication

Note: Interested readers can find details of these ACCA reports (Jones and Slack, 2008; 2009; 2010; 2011; 2012) on the ACCA website at http://www.accaglobal.com/financialreporting adoption of IFRS reporting in some jurisdictions, and the fact that other countries, such as the US, remain outside IFRS reporting. Thus, what may seem a simple question of whether or not IFRS is adopted hides a multifaceted and complex answer dependent on the actual level of adoption from country to country.

Following on from the international debate concerning IFRS adoption, convergence and comparability, the symposium also debated the future of UK GAAP, at a national, UK, level. The mandatory adoption of IFRS by all UK listed companies from 2005 has been mentioned above. Over 2012/13, corporate reporting for other UK entities has been consolidated through FRS100, 101 and 102, which will be adopted from 2016. Although the importance of UK GAAP remains, this may serve to raise wider questions over the role of national accounting standards beyond national borders.

There has been a continuing tension between UK GAAP and IASB. In particular, finding a distinctive role for UK GAAP has been challenging. The UK's regulatory structure has been adapted to reflect the growing importance of IFRS. Indeed, the question of whether UK GAAP has a future has exercised much attention. In 2012, the old regulatory system for the UK, which had included the Accounting Standards Board, was restructured. The new accounting structure is headed by a Financial Reporting Council, a supervisory body, which supervises four boards: The Codes and Standards Committee, the Accounting Council, the Audit and Assurance Council and the Financial Reporting Review Panel. The Codes and Standards Committee is of particular importance: it is responsible for UK codes and standards covering a range from corporate governance and stewardship to accounting, auditing and assurance, and advanced technical standards.

Given that the most important economic entities in the UK, listed companies, follow IFRS, the important question arises as to what standards should apply to other companies. Over the last few years, therefore, a new regulatory regime has emerged for UK companies. There are three broad tiers of reporting. Under tier 1, listed companies will use 'full' IFRS. Then, under tier 2, there are the small and medium-sized enterprises (SMEs). Such companies have a choice between IFRS with fewer disclosure requirements or full IFRS. Finally, the smallest companies will usually report under a simplified version of UK GAAP, Financial Reporting Standard for Smaller Entities. In order to implement this, three Financial Reporting Standards have been recently issued (FRS 100, 101 and 102), which provide a comprehensive framework for UK companies. These are discussed in depth by Andy Simmonds in his presentation. Early adoption has been possible from 2013, but adoption is mandatory from 2016.

One of the aspects that is often debated at the symposia is the regulatory environment. For instance, over the last few years, this has included the role of national and international standard setters, the operation of review panels and reporting compliance and the interface (or interference) of political processes with accounting standards. For 2013, the regulatory environment again played an important part in the symposium. Like many other issues facing accounting, both historically and at present, challenges to good governance regulation range from aspects such as compliance through to promotion of best practice; international pressures, for instance UK and European codes of governance, and a desire to move towards a more 'fair and balanced' annual report away from boiler-plated disclosures and a 'good news' bias. The current year proved no exception, with some of these fundamental issues re-examined through UK governance reporting and a consideration of wider issues connected with this, such as the rotation of auditors and the provision of non-audit services.

Finally, and apposite to the continuing impact of the financial crisis, the symposium again debated some of its underlying issues, this time from a unique cultural/societal perspective. The lessons of history may be learned and mistakes may not necessarily be repeated. Nonetheless, past experience may not serve as preparation for either predicting or managing future crises. The current global financial crisis was contextualised against the secondary banking crisis of the 1970s, with parallels and differences illustrated; none more different than the increased complexity of financial instruments and financial disclosures. This presents challenges for the future as regards the understandability and hence usefulness of financial statements beyond a small group of expert users (and expert preparers), raising questions about the fundamental purpose of financial reporting and financial statements.

Overall, therefore, the symposium questioned and requestioned some of the basic accounting regulatory and technical issues. The five speakers provided a range of informed, interesting and, above all, provocative opinions. These are now presented, and then discussed, in more depth in the following chapters.

The Conceptual Framework: the next stage

PETER CLARK, IASB DIRECTOR OF RESEARCH

Peter's presentation on the Conceptual Framework was divided into three parts: 'Past Work', 'Overview of Objectives' and 'Qualitative Characteristics and Current Work'. The past work is shown in Table 2.1. This outlines the phase of the past work in the first column and its status in the second column (DP=discussion paper; ED=exposure draft).

Peter stated that under the Conceptual Framework, the objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. The primary users were people making investment-type decisions, such as providers of capital (eg investors, employees (for pensions, etc) and lenders). He looked at the common information needs of users and the types of decision they had to make. He noted that financial reporting is intended to have a broad scope and includes such items as interim statements and press releases, not just annual financial statements. Users need information first about the entity's resources; second about the entity's obligations (to transfer resources) and other claims against the entity; and third, about how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

Peter noted that the reference to efficient and effective discharge of responsibilities is intended to capture the notion of stewardship, although the IASB decided not to use the term 'stewardship' because it is difficult to translate into other languages. He pointed out that the IASB had decided, after much discussion, to set a single objective for financial reporting, with information needed for assessing stewardship viewed as a subset of information needed for making decisions. Some commentators would have preferred to have stewardship as a separate main objective.

Peter looked at the fundamental qualitative characteristics of relevance and faithful representation. 'Relevance' means the degree to which the information is capable of making a difference to users' decisions. Information can be relevant if it has predictive value or confirmatory value and if, in the context of the particular entity, it is material. 'Faithful representation' (formerly described as 'reliability') means that accounting should faithfully represent the phenomena it purports to report. A perfectly faithful representation would be complete (portrayed using numbers and words), neutral (unbiased) and free from error.

The Conceptual Framework also identifies four enhancing qualitative characteristics: comparability, verifiability,

Table 2.1: Past Work

Phase	Status
Objectives and qualitative characteristics	DP – July 2006 ED – May 2008 Final – Sept 2010
Elements (definition, recognition and derecognition)	Tentative agreement to definition of an asset Some discussions on other areas but no DP issued
Measurement	Some discussions at the IASB Board but no DP issued Roundtables on measurement
Reporting entity	DP – May 2008 ED – March 2010
Boundaries of financial reporting, including presentation and disclosure	No work done but some conceptual discussion in Financial Statement Presentation project
Purpose of Conceptual Framework	No work done
Applicability to other entities	No work done
Review of entire framework	No work done

Table 2.2: The IASB's plans as at November 2013

	Phase identified in earlier work	Plans
A	Objectives and qualitative characteristics	Do not reopen
B	Elements (definition, recognition and derecognition)	Build on previous work
C	Measurement	Build on previous work
D	Reporting entity	Build on ED
E	Boundaries of financial reporting including Presentation and disclosure	Cover presentation and disclosure Other work on disclosure The current work focuses only on financial statements, not on the broader aspects of financial reporting
F	Purpose of Conceptual Framework	Look to amend and update existing statements on purpose
G	Applicability to other entities	Does not cover public sector and not-for profit
H	Review of entire Framework	Not required (will be done all in one phase)

timeliness and understandability. These are all reasonably self-explanatory. Changes from the last version of the Conceptual Framework are that the status of 'going concern' is still to be resolved and the concept of 'reliability' is no longer in the current draft.

The phase of the work on the Conceptual Framework was a joint project with the FASB aimed at convergence and improvement. By contrast, the current work is an IASB-only project. Other interested bodies will be involved, through the proposed Accounting Standards Advisory Forum. The five chapters will be developed together and are related. The IASB originally aimed to have a discussion paper by mid 2013 and to finalise its project by September 2015. Peter outlined the IASB's current plans, which are set out in Table 2.2.

Peter then outlined the current definitions of the elements of accounts: Assets, Liabilities and Equity. These have broadly stayed the same. An asset is resource controlled by the entity. It is the result of a past event and is expected to result in an inflow of economic benefits. A liability is a present obligation. It arises from past events and is expected to result in an outflow of economic benefits. Equity equals assets minus liabilities. Income and expenses are then derived from the asset and liability definitions. They are related to changes in assets and liabilities.

Peter then posed a series of questions that arise from the elements.

- What does 'expected' mean and is it different from 'probable'?
- Why focus on the future inflow/outflow of economic benefits rather than on the present position?
- Why do we need to identify past transactions? (Are these relevant?)
- What does 'control' mean in the asset definition?
- How does the liability definition apply to non-contractual obligations? A liability is an obligation to transfer a resource.
- Should we define equity? If so, how?

Currently, there were no clear answers to these questions.

The Conceptual Framework stated that items are recognised if they meet the element definition when (1) it is probable that benefits will flow to/from the entity (but what does probable mean?); (2) it has a cost or value that can measured reliably (but what does measure reliably mean?). Peter asked: do we need recognition criteria if control is part of the element definition and do we need separate de-recognition criteria? He considered that 'know-how' generated by research and development met the definition of an asset, although it may not always be appropriate to recognise it if it is too difficult (or costly) to measure.

He looked at two basic principles. First, the element definitions are anchored on assets and liabilities (the stocks), not revenues and expenses (the flows). He pointed out that some observers believe – incorrectly, in his view – that this relegates the role of the income statement, making it ancillary to the balance sheet. Second, defining each part and expecting it to equal the whole can be difficult. For example, we can either have separate definitions for 'assets', 'liabilities' and 'equity' or for 'assets less liabilities equals equity'.

Peter then addressed five fundamental questions and exemplified some accounting issues that were most relevant to them. First, is an asset a bundle of rights or are separable rights also, potentially, assets (eg leases, rate-regulated activities)? Second, when is an entity obliged (liable) for its activities (eg insurance, non-financial liabilities, lawsuits, emissions trading schemes)? Third, what does 'unit of account' mean? Is this the same as unit of presentation (eg investment properties, property, plant and equipment)? Fourth, is there a difference between something that is self-generated and something that is acquired? Fifth, does measurement uncertainty affect the existence of an asset or liability?

Peter considered the measurement section of the Conceptual Framework to be almost non-existent. It only lists some measurement methods used in practice. A crucial issue is whether there should be one measurement basis or more than one? Peter argued that there should be no single measurement approach for all assets and liabilities. Measures should provide relevant information about rights/resources and obligations as well as about changes in rights/resources and obligations. Other factors that should be taken into account were the interaction with measures of other assets and liabilities, as well as cost measured against benefits.

Some tentative decisions were reached in a draft of the reporting entity chapter, for which the IASB and FASB had published an exposure draft in 2010. A reporting entity is a circumscribed area of economic activity, but does not need to be a legal entity. A branch or segment of a legal entity could, therefore, be a reporting entity. Consolidated financial statements are used for general-purpose reporting. In addition, combined financial statements might be useful for a group of entities under common control. In addition, parent-only financial statements maybe useful with consolidated financial statements, but not on their own.

There are several matters to consider. First separate financial statements are important in many jurisdictions. Second, the entity-versus-proprietary perspective is important in identifying the investors to which an entity is reporting. Third, with common control, does ultimate ownership matter?

Finally, Peter looked at presentation, classification and disclosure. On presentation, there were several key questions.

- What is the purpose of each of the main financial statements?
  - Is any one of the statement of financial performance, the statement of financial position or the statement of cash flows more important than any of the others?
  - What should be the relationship of the three statements with each other – should they be separate or interrelated?
  - How should the information in the financial statements be classified?
  - Should financial statement classification be influenced by an entity's business model?
  - There is a need to balance comparability versus consistency.
- Should the IASB keep a distinction between profit or loss and comprehensive information (OCI)?
  - If so, what is the basis for that distinction?
  - What is the role of 'recycling'?
- Should the IASB consider industry-specific presentation models?
- Should the IASB develop any concepts as a result of the work done in the previous incomplete project on Financial Statement Presentation?

The disclosure chapter will need to set out principles for aggregating and disaggregating information, other disclosures, information about risks, and about opportunities and materiality.

QUESTIONS

Pauline Weetman (Edinburgh University) queried how research could influence the Conceptual Framework. Peter replied that work on the Conceptual Framework had been in progress since 2002/3 and more research and subsequent discussion would be useful beyond the Discussion Paper phase.

Robin Jarvis (ACCA) further asked whether there would be an opportunity for academics to comment. Peter was keen to gain future feedback and informed comment from academics, although Pauline Weetman (Edinburgh University) mentioned that FARSIG had opposed the new IASB-suggested advisory panel. Chris Nobes (Royal Holloway University) wondered whether there was anything on disclosures, specifically with regard to discount rates and conformity of practice. Peter said the discount rate is driven by the measurement. Many people have suggested that further guidance on the discount rate was needed.

Andy Simmonds (Deloitte) asked about stewardship, and whether past costs are relevant to decision making. Peter clarified that although the definitions of income and expense are based on the definitions of assets and liabilities, information about margins from actual transactions can be important.

Yannis Tsalavoutas (Stirling University) stated that one important element that was not much discussed was the new phase involving the IASB only. He asked whether there was a danger that the IASB would do all the work and then the US would comment and the IASB would have to reissue the Framework. Peter said it has been difficult to work with two autonomous boards. The rest of the world had sent a clear message that they thought bilateral convergence had gone on for far too long.

Vickie Wood (Department of Business, Innovation and Skills) wondered how implicated accounting standards were in the banking crisis. Peter said the IASB was working towards a universal framework which would cover all sectors, and that would help. This question was then further addressed in Bruce Packard's presentation.

Rhoda Brown (Loughborough University) wondered whether, if the IASB had not involved the FASB, anything would have been different. Peter said he did not know, but thought perhaps the discussion on 'stewardship' might not have landed in exactly the same place (ie come to quite the same conclusions).

Developments in corporate governance

CHRIS HODGE, DIRECTOR OF CORPORATE GOVERNANCE, FINANCIAL REPORTING COUNCIL

Chris gave us his insights into the current framework, challenges and developments in corporate governance. While his presentation mainly focused on UK governance and current changes, he also extended this to outline briefly the wider EU developments in governance. The presentation was divided into four main parts: the UK regulatory framework; current UK governance changes and developments; EU developments; and recurring themes in governance. Chris was able to draw on his extensive knowledge of governance because he is responsible for updating and monitoring the effectiveness of the UK Corporate Governance Code and is also responsible for the UK Stewardship Code followed by institutional investors.

THE UK REGULATORY FRAMEWORK.

Statutory requirements, in common with the wider framework relevant to corporate entities, are set out in Company and Securities Law, covering, for instance, directors' duties, shareholder rights and mandatory disclosures such as directors' remuneration. UK public company listing rules include additional requirements for companies to report on how governance codes are applied. The UK Corporate Governance Code applies to all UK Premium Listed companies. The Code sets governance standards, and the Financial Reporting Council (FRC) provides related guidance to boards on topics such as risk management, internal control, and the role of audit committees in assisting the board to implement the Code. The UK Stewardship Code sets out the principles to be followed by institutional investors to enhance their engagement with the companies in which they invest. The Codes are set by regulators to provide a framework for governance and related reporting that can be monitored and enforced by regulators and shareholders. The Code is intended to raise best practice in governance practices and disclosures by companies, beyond minimum compliance with legal requirements. Chris reported that within the UK there are high rates of compliance with the Code: 97% among FTSE350 companies. Further, and more significantly, there is a rapid uptake of good practice as shown by 96% of the FTSE350 companies, which began holding annual elections within two years of the introduction of the Code. Other specific successes include the widely practised splitting of chairman and chief executive roles, having a majority of independent directors on boards, and the role of audit committees and board evaluation.

UK Corporate Governance Code changes and wider developments.

Chris started by outlining the need for a more 'fair and balanced' annual report and accounts, not having an investor relations 'spin' with a good-news bias but rather outlining in more detail both positive aspects of performance and governance and plans for future development of any weaker areas. [The 'fair and balanced' requirement relates to the annual report as a whole, not just the governance statement.] There would also be a benchmark for explanations when not complying with the Code. Overall, this should improve the credibility of governance reporting as a comprehensive and more impartial review. He acknowledged some improvements in reporting since 2008 in areas such as risk reporting and the link to corporate strategy, but was disappointed that audit committee reporting was still relatively limited and in some instances 'boiler-plated'. As well as recommendations for more balanced reporting there will also be some for greater diversity reporting, such as on gender, specifically board-level diversity, future plans and progress against targets.

On another topic, there remains continued debate over the tendering of external audit services and the length of time for which an auditor should be appointed, an issue revisited in the open forum questions. Further, there should be more consistent disclosure on the use of advisers, related fees and the areas covered by such services.

Although these were the main areas for change, Chris also highlighted additional current developments in UK governance. Firstly, he looked at director remuneration, policy and related disclosure. The prominence of director remuneration, highlighted by the 'Shareholder Spring' with votes against remuneration serving as a proxy for protest against poor company performance, had led the government to develop new reporting requirements. Chris questioned whether increased detailed remuneration disclosure, intended to increase transparency, would inadvertently lead to an increase in future remuneration levels as directors are now more able to see peer performance and full remuneration details. Thus the solution will not necessarily be achieved through disclosure alone but will depend on how shareholders respond. Secondly, Chris mentioned the overall reporting framework of non-financial reporting and the structure of annual reports. For instance, should the annual report be split into two parts comprising a strategic short report and a directors' statement? He acknowledged that at this stage the detail and composition of each element still need to be clarified before any firmer proposals are developed. Thirdly, he noted that the current Parliamentary Commission on Banking Standards was considering ethics in the banking sector, and expressed a view that ethics should come from within an industry or organisation and not through enforcement. The latter may again lead to a compliance culture rather than a best-practice culture. Even so, in the light of the banking crisis he wondered whether there should be a financial professional body to close a potential gap in the banking sector and distil best practice.

EU developments.
All 27 EU member states have corporate governance codes in place with inevitable overlap. Beyond local codes, the EU Audit Directive had been implemented by a number of countries and the proposed new Audit Regulation would be EU wide. Proposals being negotiated include mandatory auditor rotation with a proposal for any term to be limited to a minimum of 5 and a maximum of 15 years. Chris gave his view that five years is simply too short a period to allow efficiency gains and add value to the audit client. In line with some of the themes outlined above there is also a current debate concerning non-audit services and whether audit firms should be precluded from non-audit work to help safeguard independence. There is also current debate on audit committee composition. The current practice is to have at least one financial expert on audit committees, but there is a Commission proposal to increase this to at least two financial experts. This may lead to a bias in the balance of the committee composition with an over-emphasis on financial skills and a top-heavy financial skill base at a senior level in the company. On gender diversity in company boards, the Commission proposes a 40% quota of female non-executive directors. Issues were raised by Chris about the appropriateness of generic targets and also the sole focus on non-executive board members rather than on the composition of the board as a whole. In the UK, there is a single-tier board structure rather than the common European model of a two-tier board structure comprising a supervisory board and a management board. Hence, for the UK, board composition as a whole needs to be in focus, with no legal distinction of executive and non-executive directors. Finally, Chris outlined the EU Action Plan on corporate governance and company law, which includes directors' remuneration, reporting on risk and corporate social responsibility (CSR), 'comply or explain' provisions, reporting by institutional investors, and proxy advisers. Many of the issues arising from this have already been addressed in the UK Code but nonetheless such a plan is helpful in harmonising European governance and improvements to best practice.

RECURRING THEMES

In conclusion, Chris highlighted the key areas that continue to be discussed both within a UK and wider European context, many of which had been referred to earlier in his presentation. There were five key areas as follows: the role of the audit committee; non-financial reporting and framework for reporting; challenges to comply or explain and benchmark for best practice; long-termism; and the role of shareholders in governance.

QUESTIONS

There followed a lively discussion with a number of questions on the presentation and requests for Chris to give his views.

Richard Martin (ACCA) revisited the link of remuneration disclosure and subsequent levels of remuneration. Chris emphasised that this is a whole area to be more fully addressed but equally that it was right to recognise through remuneration the value that executive directors may add to a company and the balance between their retention and a fair level of remuneration. Beyond this, there is also a need to look more fully at the balance, composition and reporting of the remuneration committees across UK companies.

Vickie Wood (Department of Business, Innovation and Skills) was interested in the role of ethics. The wider public may look to accountants to fix problems but there is a burden of administrative compliance that may stifle good practice. Chris recognised the tension between the increasing reporting requirements imposed on companies and the desire to go beyond compliance through exemplars of best practice.

Ahmad Mlouk (Staffordshire University) raised concerns as to how much non-executive directors were fully informed about the business or whether their views were biased and based upon the opinions of the executive directors, and were thus compromised in their ability to provide a basis for a balanced board discussion. Chris again recognised the tension caused by this and the challenges faced by non-executive directors over quality of information. Time, experience and the ability to reflect on key strategic issues facing the company were key factors.

Kathryn Cearns (Herbert Smith Freehills) commented on the current balance and usefulness of disclosure to investors and wider stakeholders. This was again another major issue that had been raised by Chris. He believed it would be challenging to move towards more impartial reporting and to enhance the overall quality and hence usefulness of reporting in a public document.

The persistent survival of national patterns of accounting despite the adoption of IFRS

CHRISTOPHER NOBES, PROFESSOR OF ACCOUNTING, ROYAL HOLLOWAY, UNIVERSITY OF LONDON AND UNIVERSITY OF SYDNEY

Christopher started his presentation by setting out the background to IFRS adoption. The adoption of IFRS in major capital markets had started with a few German companies in 1994. The current situation was described by the accountancy network BDO as follows: 'The global rollout of International Financial Reporting Standards is gaining momentum, with more than 100 countries now using IFRS and all of the world's major countries anticipated to be on board within the next few years' (BDO 2012).

Christopher, however, thought that we needed an antidote to this rather Panglossian view. Even where IFRS is used, Nobes (2006) suggested there is motivation and scope for different national versions of IFRS practice. This included a list of 'overt options'. Many researchers have used this as a starting point. Nobes (2006) reviewed the findings of this research and suggests further research.

Christopher outlined different methods of implementing IFRS in national regulations about the consolidated statements of listed companies. He outlined four major approaches. First, adopting the process: this means adopting all standards (ie the book of IFRS as issued by the IASB) eg Israel and South Africa. Second, standard by standard: this could be (i) as issued by IASB (Canada, except that the standards are also provided in French), or (ii) fully converged with IFRS (Australia) or (iii) as issued by IASB but with deletions, as in the EU. Third, IFRS are optional (Switzerland). Fourth, reporting is not fully converged with IFRS (China/Venezuela).

Christopher outlined IFRS implementation at 31 December 2012 across 15 major jurisdictions. He distinguished (Table 2.3) between consolidated (cons'd) and unconsolidated reports.

He therefore suggested that the apparently simple question: 'Is IFRS adopted in your country?' is really not so simple.

Table 2.3: IFRS implementation for domestic companies, 31 December 2012 year ends

1	2	3	4	5	6	7	8
Jurisdiction	Is IASB-IFRS required for all regulated reporting?	Is IASB-IFRS required for cons'd reports of listed co.s (CSLC)?	Is a version of IFRS (intended to ensure compliance with IASB-IFRS) required for all reporting?	Is a version of IFRS (intended to ensure compliance with IASB-IFRS) required for CSLC?	Is a version of IFRS allowing compliance with IASB-IFRS required for all reporting?	Is a version of IFRS allowing compliance with IASB-IFRS required for CSLC?	Is a version of IFRS (allowing IASB-IFRS) required (or allowed=A) for unconsolidated reporting?
Australia	N	N	N	Y (2005)	N	Y	N (A)
Canada	N	N	N	N	N	N	N (A)
China	N	N	N	N	N	N	N
France	N	N	N	N	N	Y (2005)	N
Germany	N	N	N	N	N	Y (2005)	N
Hong Kong	N	N	N	N	N	N	N
India	N	N	N	N5	N	N	N
Japan	N	N	N	N	N	N	N
Russia	N	Y (2012)	N	Y	N	Y	N
South Africa	N	Y (2005)	N	Y	N	Y	N (A)
South Korea	N	N	N	Y (2011)	N	Y	N (A)
Spain	N	N	N	N	N	Y (2005)	N
Switzerland	N	N	N	N	N	N	N
UK	N	N	N	N	N	Y (2005)	N (A)
US	N	N	N	N	N	N	N

Research needs a good institutional setting, but Christopher pointed to deficiencies in the institutional setting in the extant literature. For example, Francis et al. (2008) say that most unlisted companies in a majority of 56 countries had adopted IFRS in 1999/2000. This was, however, incorrect at the time, indeed it was illegal in most EU countries.

Christopher described how IFRS practices can differ from country to country. He outlined eight opportunities for differences in IFRS practices (Nobes 2006):

- different versions of IFRS
- translations
- enforcement, compliance
- gaps in IFRS
- measurement estimations
- first-time adoption
- overt options
- covert options.

He outlined details of the gaps, measurement and first-time adoption options that applied to IFRS. Christopher identified gaps in IFRS (eg accounting for artworks; and IFRS sections 4 and 6 (Insurance, Oil and Gas)). Measurement estimations were also variable. For example, the size of impairment can vary or differences in goodwill due to first-time adoption can arise (eg survival of large initial differences in starting positions on goodwill).

Finally, there were systematic differences in the options chosen (overt and covert). A list of overt options has been used by several researchers. Although a few options have since been removed by the IASB (eg expensing borrowing costs, treatment of actuarial gains and losses (AGL), proportional consolidation), there are still many options outstanding.

Christopher discussed a number of empirical studies that have looked at different IFRS choices in different countries. For example, Kvaal and Nobes (2010) looked at 2005/6 annual reports of the largest companies in the five largest IFRS-using stock markets: Australia, France, Germany, Spain, and the UK. They set up 19 hypotheses (assuming continuation of previous policies). For example, Hypothesis 16 is that the tendency to use proportional consolidation is found in the following countries in decreasing order: France, Spain, Germany, UK, Australia. Of the 84 tests: 69 reject the null hypothesis (of same practice in all countries) at 1%; 7 at 5% and 8 did not reject it.

DO POLICY CHOICES CHANGE OVER TIME?

Kvaal and Nobes (2012) looked at all policy changes of the above companies from 2005 to 2008 to investigate this. They set out three hypotheses.

- Hypothesis 1: More change on transition to IFRS than from 2005 to 2008 (confirmed except for France and Spain). The French changed more after transition than on transition, despite the constraints on policy change in IAS 8.

- Hypothesis 2: More continental change than Anglo-Saxon change. This was confirmed.

- Hypothesis 3: Variance greater for continental companies, because some would be interested in international capital markets. This was confirmed.

Table 2.4: Policy choices (% of companies by country)

	Australia	UK	France	Spain	Germany
1a) income statement by function	59.3	47.2	54.8	4.0	76.5
1b) by nature	29.6	13.9	45.2	96.0	23.5
1c) neither	11.1	38.9	0.0	0.0	0.0
2a) inclusion of a line for EBIT or op profit	51.9	97.2	100.0	96.0	100.0
3a) equity acc included in operating	63.2	24.5	6.9	0.0	18.8
3b) immediately below	15.8	32.1	3.4	8.3	62.5
3c) below finance	21.1	43.4	89.7	91.7	18.8
4b) showing net assets	100.0	84.7	0.0	0.0	0.0
5b) liquidity increasing	0.0	100.0	100.0	96.3	85.0
6b) OCI only	65.9	83.7	5.7	25.0	21.7
7b) indirect cash flows	0.6	98.0	100.0	87.5	100.0
8a) dividends received as operating	87.5	36.7	92.9	50.0	66.7
9a) interest paid as operating	90.9	68.4	88.6	38.7	61.9
10b) some PPE at fair value	13.6	12.2	0.0	0.0	0.0
11b) investment property at fair value	42.9	73.1	0.0	0.0	0.0
12a) some fair value designation	29.6	12.5	32.3	12.0	5.9
13a) interest capitalization	75.8	47.5	40.0	94.4	22.2
14a) FIFO only	27.3	50.0	11.5	5.9	0.0
14b) weighted average only	59.1	29.2	57.7	88.2	71.4
15a) actuarial gains/losses to OCI	72.7	84.4	20.0	12.5	47.6
15b) to income in full	18.2	3.3	5.7	37.5	0.0
15c) corridor	9.1	12.2	74.3	50.0	52.4
16a) proportional consolidation of JVs	0.5	22.4	81.3	84.6	31.3

Note: OCI represents 'other comprehensive income'.

The policy changes from 2005/6 to 2008/9 are outlined in Table 2.5.

Nobes and Perramon (2013) also looked at whether small listed companies make different choices. They used France, Spain, Germany, UK and Australia (2008/9). Small companies make different choices (and are more homogeneous within country). These policy choices (percentages of companies by country) are shown in Table 2.5.

There was thus variation by size. For example, across 15 policy topics, there were 13 significant differences at the 1% level.

Christopher explored whether other factors affected policy choice. He did this by referring to three studies. First, Jaafar and McLeay (2007) found an influence of sector, but this was pre-IFRS. Second, Cole et al. (2011) find an association between different auditors and the choice of disclosures/ formats. Finally, Nobes and Stadler (2012) found that country influence survives the inclusion of variables for sector, firm and topic. The extractive industry has idiosyncratic policies, but generally sector differences are not important.

Christopher reviewed the history of classification. Hatfield (1911), Seidler (1967), AAA (1977), da Costa et al. (1978), Frank (1979), Nair and Frank (1980) all found three groups: US, UK, other. Mueller (1967) had four groups with the US/UK in the same group. Nobes (1983) and Doupnik and Salter (1993) agreed with Mueller. On the other hand, Shoenthal (1989), Cairns (1997), Alexander and Archer (2000), d'Arcy (2001) all rejected the existence of 'Anglo-American accounting'.

Table 2.5: IFRS policy changes from 2005/6 to 2008/9

		AUS			UK			GER			FRA			SPA		
		Large	Small	Dif.	Large	Small	Dif.	Large	Small	Dif.	Large	Small	Dif.	Large	Small	Dif.
1 (a)	income statement by function	58.3	35.3	-23.0	50.8	100.0	+49.2	82.6	36.0	-46.6	60.0	20.0	-40.0	4.8	4.0	-0.8
2 (a)	line for operating profit	58.3	18.9	-39.4	98.4	100.0	+1.6	91.3	96.0	+4.7	96.7	100.0	+3.3	100.0	92.0	-8.0
3 (a)	equity profit in 'operating'	64.7	16.7	-48.0	40.8	55.6	+14.7	22.7	15.4	-7.3	10.0	0.0	-10.0	0.0	0.0	0.0
4 (b)	focussing on net assets	100.0	97.5	-2.5	85.2	45.0	-40.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5 (b)	liquidity increasing	0.0	0.0	0.0	100.0	100.0	0.0	69.6	92.0	+22.4	100.0	100.0	0.0	95.2	100.0	+4.8
6 (b)	SORIE only	70.8	12.5	-58.3	92.1	50.0	-42.1	43.5	8.0	-35.5	13.3	0.0	-13.3	42.9	8.0	-34.9
7 (b)	indirect cash flows	8.3	0.0	-8.3	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	96.0	-4.0
8 (a)	interest paid as 'operating' flow	87.5	91.2	+3.7	65.1	68.6	+3.5	68.2	76.0	+7.8	80.0	56.0	-24.0	47.6	58.3	+10.7
9(b)	some PPE at fair value	0.0	13.2	+13.2	3.2	7.5	+4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10(b)	investment property at fair value	0.0	100.0	+100.0	25.0	75.0	+50.0	0.0	0.0	0.0	0.0	25.0	+25.0	0.0	0.0	0.0
11(a)	some fair value designation	25.0	63.0	+38.0	11.1	12.0	+0.9	17.4	28.6	+11.2	33.3	25.0	-8.3	19.0	42.9	+23.8
12(a)	interest capitalisation	87.0	61.9	-25.1	54.3	37.5	-16.8	43.5	11.1	-32.4	40.0	16.7	-23.3	100.0	76.2	-23.8
13(b)	weighted average only	52.9	30.8	-22.2	32.6	30.0	-2.6	75.0	68.4	-6.6	50.0	44.4	-5.6	88.2	77.3	-11.0
14(a)	actuarial gains/losses to SORIE	84.2	50.0	-34.2	88.3	92.3	+4.0	73.9	25.0	-48.9	53.3	15.0	-38.3	69.2	55.6	-13.7
15(a)	proportional consolidation	18.8	33.3	+14.6	20.9	41.7	+20.7	18.8	42.9	+24.1	72.4	100.0	+27.6	93.8	83.3	-10.4

Table 2.6: Significance level of IFRS policy changes from 2005/6 to 2008/9

		Significance level		
No.	Topic	1%	5%	10%
1	Use of by-nature income statement (more in Ger/Fra; less in Aus/UK)	UK, Ger, Fra	-	Aus
2	Less use of line for operating profit	Aus	-	-
4	Less focus on 'net assets' in balance sheet	UK	-	-
5	Less use of 'cash first' in balance sheet	-	Ger	-
6	Less use of SORIE	Aus, UK, Ger, Spa	-	Fra
7	Less use of indirect cash flow method	-	-	Aus
8	Less showing of interest paid as operating	-	-	Fra
9	More use of fair value for PPE	-	-	Aus
10	More use of fair value for investment property	Aus	-	UK
11	More fair value designation	Aus	-	Spa
12	Less interest capitalisation	-	Ger, Spa	Aus
14	Less use of SORIE for actuarial gains/losses	Ger, Fra	-	-

Christopher looked at the classification of accounting systems over time, first in 1980 and then almost 30 years later in 2008/9 (Figure 2.1).

Nobes (2011) used 2008/9 data from Kvaal and Nobes (2010), and added three countries. After 30 years of EU and IASC/B harmonisation, the UK and Australia are still together.

More empirical work has recently been done. Wehrfritz et al. (2012) investigated whether German and UK accountants make different choices on 'estimations'. No clear answer has been found yet. Then, André et al. (2012) looked at whether the adoption of IFRS increases comparability. They used 25 topics but not all are options. Finally, Kvaal and Nobes (2013) showed that the quality of tax disclosures differs by country.

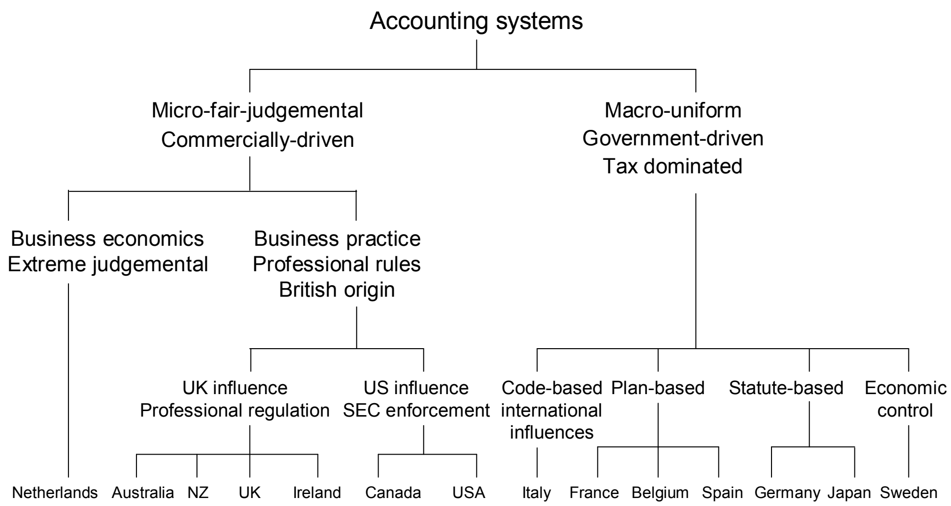
The conclusions of Nobes's work (2011) were that versions of IFRS (which allow compliance with IASB-IFRS) have been adopted in about 90 countries for listed/consolidated reporting. Even in these countries, however, the reasons for differences in pre-IFRS practices can still affect IFRS policy choice. In short, companies and countries tend to carry on doing what they did before. There are many opportunities for different versions of IFRS practice, and pre-IFRS practice is a strong explanation of IFRS policy choice. The importance of sectors has very little effect, except for financials and extractives.

Countries can thus be put into groups by pre-IFRS practices. National patterns of IFRS practice existed in 2005/6 and continued into 2008/9. On some topics, continental companies changed their practices in the period (and indeed changed them more than at transition). Even after this, Nobes's two-group classification has survived 30 years of harmonisation by the EU and the IASC/B. Analysts need to be aware that IFRS practices vary, and that different countries adopt different reporting profiles.

Small firms choose different policies from large firms. Therefore, national profiles are even clearer for small companies. A good example of this is in Germany. Work has begun on other issues (eg whether estimations are done differently by country).

In the main, this paper should not be seen as a criticism of IASC/B. Nonetheless, the IASB could potentially remove the policy choices. Over time, the comparability of listed/consolidated companies has improved. Enforcement is not within the IASB's control and alternatives to IFRS would have similar problems (except that US GAAP has fewer options). Christopher concluded by stating that the paper gave many possible examples of potential future research.

Figure 2.1: A suggested classification of accounting systems



QUESTIONS

Vickie Wood (Department of Business, Innovation and Skills) asked whether consistent adoption of IFRS mattered and if so to whom? Christopher reinforced the need for international comparability for those companies that compete for financial resources on international capital markets. Following on from this, Richard Martin (ACCA) asked how in practice more uniformity could be achieved given the current state of practice. Among other things, Christopher would like the EU to require auditors to give a specific opinion on compliance with 'IFRS as issued by the IASB'.

Pauline Weetman (Edinburgh University) referred back to overt choices and the hoped-for future research on covert choices would follow, but so far there had been little research. Christopher answered that it was extremely difficult owing to the need for inside information and access to finance director level, for instance on the measurement of impairment.

Richard Slack (Durham University) then asked whether the research showed evidence of non-compliance. Christopher said that this particular research would not reveal non-compliance because it investigated allowed options under IFRS and therefore the question was about the options used rather than compliance.

Banking crises: past, present and future

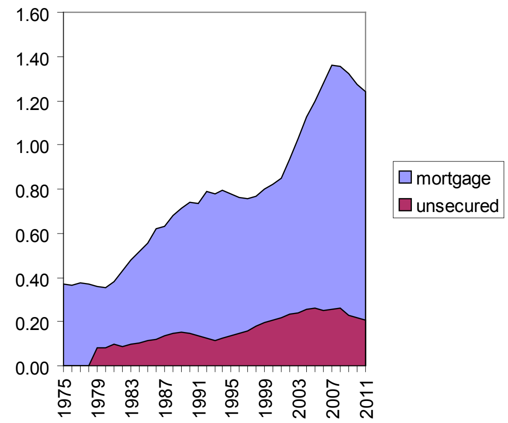
BRUCE PACKARD, INVESTMENT ANALYST

Bruce has covered UK banks since 2000 and over the last 12 years has worked as a bank analyst at a number of leading investment banks, so he is well placed to give a review of the nature of crises and whether historic lessons have been learnt. Bruce started his presentation by introducing a cultural theory of risk, drawing on Mary Douglas, Mike Thompson and Gerry Mars. Within this he posited that bank stakeholders are roughly split into four separate groupings: 'fatalists'; 'self-interest maximisers'; 'egalitarians'; and 'hierarchy and control'. He returned to this model at the conclusion of his presentation and discussed how the current banking crisis can be viewed through such a cultural/ societal lens.

Bruce provided a historical context by initially reviewing what happened in the 1970s, and the UK secondary banking crisis towards the end of that decade. Up until the 1960s the loan to deposit ratio was below 0.3. By the 1970s, UK clearing banks had a loans to deposit ratio that had risen above 0.5. In contrast, in 2008, the loan to deposit ratio was 1.4 and, at that time, the UK funding gap was around £800 billion. In reviewing the 1970s crisis, Bruce reflected on whether the wrong lessons had been learnt. Had the focus been more on the historic causes of crisis rather then the evolved nature of the contemporary banking system? The secondary banking crisis was in part driven by growth in the Eurodollar markets and the rise in importance of sovereign wealth funds. In the early 1970s, although there was growth in the total assets of secondary banks (such as London and County), these total assets were still dwarfed by those of the major clearing banks such as Barclays, which continued to increase their loan/ deposit ratio through the crisis, with loans growing as a proportion of total assets. Bruce then reviewed the asset mix of major UK clearing banks such as Barclays (1964–75) and NatWest (1970–77). Both these banks showed very high levels of balance sheet growth through the respective periods, but, significantly, these were funded by customer deposit growth. For instance, for NatWest deposits remained over 90% of total liabilities. Furthermore, the growth at that time was also underpinned by a relatively stable asset mix of advances, investments, fixed assets, and cash and other short-term funds.

Looking at the period 1975–2011, Bruce illustrated the stark increase in UK debt compared with disposable income, which became particularly evident through the 2000s (Figure 2.2). He questioned how such growth in, and levels of, household debt (mortgages and lending) could outpace disposable income for so long? Further, he questioned whether such rapid growth should not be naturally constrained by deposit growth. In contrast to the 1970s, however, this constraint was no longer a barrier owing to the increased reliance on wholesale money markets and interbank lending liquidity. This was illustrated with reference to the level of debt securities on bank balance sheets prior to 2007.

Figure 2.2: UK debt/disposable income 1975–2011



Source: *Halifax Economic Factbook.*

In reviewing bank balance sheets through the early part of the 2000s, Bruce commented, that although there was a rise in asset disclosure, it was actually more difficult to see a clear categorisation of assets than in similar reviews of the 1970s, when disclosure was simpler and thus unambiguous. This difficulty was compounded by changes in asset definitions over time, for instance through changes in IFRS, making direct historical comparisons of asset classes and liabilities consequently more difficult. For instance, HBOS balance sheets 2002–7 showed a high proportion (30%) of investment securities – but what did these comprise and what was the underlying quality of the investments? Bruce outlined the well-known issue of asset securitisation and re-selling on of household debt (mortgages) that effectively migrated to other parts of the balance sheet. Investigation since the crisis shows, however, that more than 75% of all UK bank losses came from overseas, not UK, lending. The major UK banks lost around 15 times as much on non-UK mortgages as on UK lending. Thus the nature and causes of the two crises are different, reflecting differing structures and pressure points over time.

Looking ahead, Bruce asked what activities banks are here to do. Traditionally, they are to keep savers deposits safe and to supply credit for growth but, more cynically, that had been extended to providing high-loan-to-value mortgages secured on overvalued assets. The fundamental activities of banks need to be revisited and a realistic basis for future returns established.

In his concluding comments, Bruce drew upon the cultural theory of risk and categorised various bank stakeholders to the four groupings. This is shown in figure 2.3.

Figure 2.3: The four groups of bank stakeholders

Fatalists Savers	**Hierarchy and control** Bank of England, MPs
Self interest maximisers Bank management, property developers	**Egalitarians** Occupy Wall Street, journalists

He questioned the role of accountants and where they would, as a profession, fit into the model and the structural weaknesses that had existed in hierarchy and control.

QUESTIONS

Aurangzeb Bozdar (Premier Oil) asked whether it was possible to spot the next crisis from such a cultural-risk approach. Bruce commented that the model is useful in revealing structural weaknesses that exist, especially hierarchy and control, and the need to ensure effective control and governance over the financial system and to safeguard against self-interest and distorted returns.

Following on from this, Ahmad Mlouk (Staffordshire University) raised the issue of responsibility for the crisis and whether it lay principally with the banks or with the regulatory system? Bruce replied that one of the issues that faced the control system was the power of outside influences such as the ratings agencies, but fundamentally banks, because of their own lending behaviour, were at the heart of the issue. This was added to by Mark Clatworthy (Cardiff University), who commented on the relationship between analysts and the respective banks that they follow. These two parties have a mutual reliance so analysts tend to avoid being publicly critical in their comments. Should fund managers not do their own research on bank fundamentals if they are aware of sell-side capture and bias?

Vickie Wood (Department of Business, Innovation and Skills) commented on the model used and the composition and size of the various stakeholders. Bruce commented more on the power of the stakeholders within the model rather than size of any particular group.

Has UK GAAP got a future?

ANDY SIMMONDS, PARTNER DELOITTE LLP, AND MEMBER, ACCOUNTING COUNCIL

Andy is a member of the UK Accounting Council and in that capacity has been involved in the development of the new UK accounting standards regime. Additionally, he is one of the two UK representatives in the EFRAG Technical Expert Group. In his practice, Andy provides advice on financial reporting topics to audit partners and senior staff within Deloitte. Drawing on this comprehensive mix of policy and practice, Andy was able to give us his own, personal, insights into current accounting change and the future of UK GAAP. His presentation comprised a short historical overview followed by current developments, leading into a discussion of their impact on listed groups and UK reporters. He then portrayed the key differences between full IFRS, and old and new UK GAAP before he gave some concluding comments on what the Accounting Council has achieved.

Over its history, the Accounting Standards Board (ASB) (now the Accounting Council) has done a considerable amount of work, and the framework for accounting has radically changed from the 1990s Statements of Standard Accounting Practice (SSAP) landscape. Figures 2.4 and 2.5 show the key events and timeline for the period 2002–15, including full IFRS adoption for UK listed company reporting in 2005.

Figure 2.4 :IASB developments

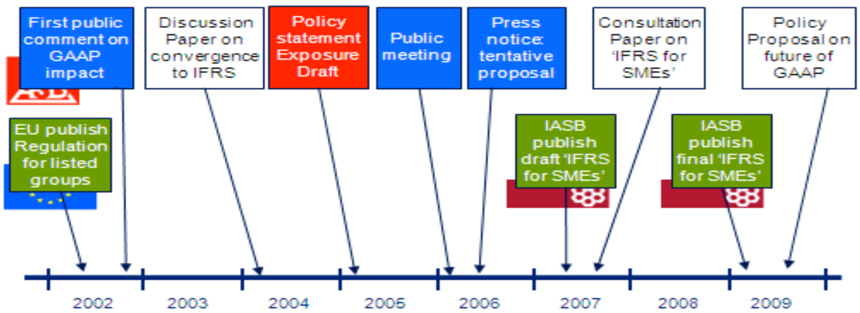
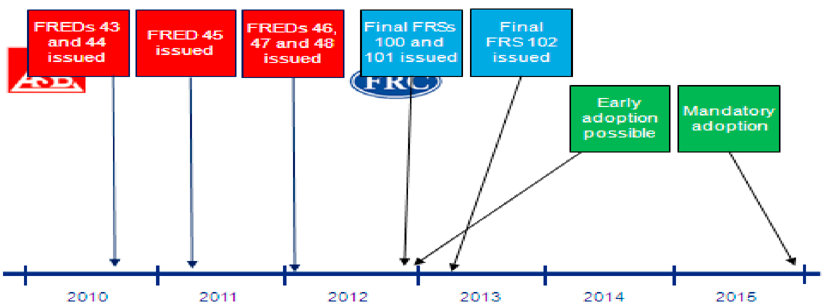


Figure 2.5: ASB/Accounting Council developments



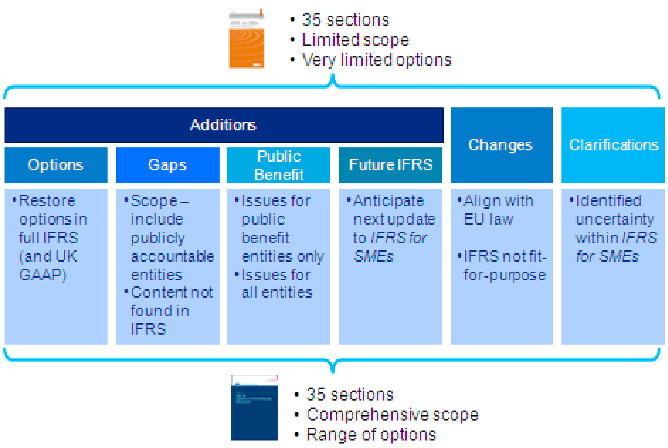
The final Financial Reporting Standards (FRS 100, 101 and 102) were issued in late 2012/early 2013 with early adoption possible from 2013 and mandatory adoption by 2016. Andy then outlined the key aspects of the three standards, summarised in Figure 2.6.

Figure 2.6: The key aspects of the three standards

FRS 100 deals with how the financial reporting requirements are applied. This does not cover listed company group accounts, which are covered by the IASB. Non-listed UK companies can choose between adopting IFRS or following FRS 102 (UK GAAP with reduced disclosures.) The smallest companies currently reporting under FRSSE (Financial Reporting Standards for Small Enterprises) will continue doing this. Parents/subsidiaries of listed companies will now have a choice between either following FRS 101, group IFRS with reduced disclosures or FRS 1O2, UK GAAP, with some reduced disclosures.

Andy then outlined the key aspects of FRS 102 and these are summarised in Figure 2.7.

Figure 2.7: Key aspects of FRS 102



Following the outline of FRS, Andy addressed their impact, first on listed groups and second on UK reporters. For consolidated group accounts of listed groups no change to full IFRS is required by EU regulation. Parent/subsidiaries can either switch to group IFRS accounting policies with reduced disclosure (per FRS 101) or stay on UK GAAP (FRS 102) with some reduced disclosure, a topic Andy addressed in discussing the impact on UK reporters. For IFRS preparers, the disclosure reductions as specified by FRS 101 are summarised in Figure 2.8.

Figure 2.8: Disclosure reductions for IFRS preparers

As specified by FRS 101	
Not currently required in UK	• Cash flow statements (IAS 7) • Key management compensation (IAS 24)
Disclosed on a group basis	• Share-based payments (IFRS 2) • Financial instruments (IFRS 7)* • Fair values (IFRS 13)* • Acquisitions (IFRS 3) • Discontinued operations (IFRS 5) • Group related party transactions (IAS 24) • Impairment (IAS 36)
Other	• Capital commitments (IAS 16/38) • Comparative data (IAS 16, 38, 40) • Third balance sheet (IAS 1) • Capital management (IAS 1) • Standards not yet applied (IAS 8)

* No exemption for financial institutions

Andy outlined the reduced disclosure regime for UK GAAP reporters as specified by FRS 102. The main areas not currently required in the UK are cash flow statements (section 7) and key management compensation (section 33). Share-based payments (section 26) and financial instruments (sections 11 and 12) will be disclosed on a group basis. Figure 2.9 shows five significant areas of impact that Andy highlighted for UK GAAP reporters.

Figure 2.9: Significant impacts on UK GAAP reporters

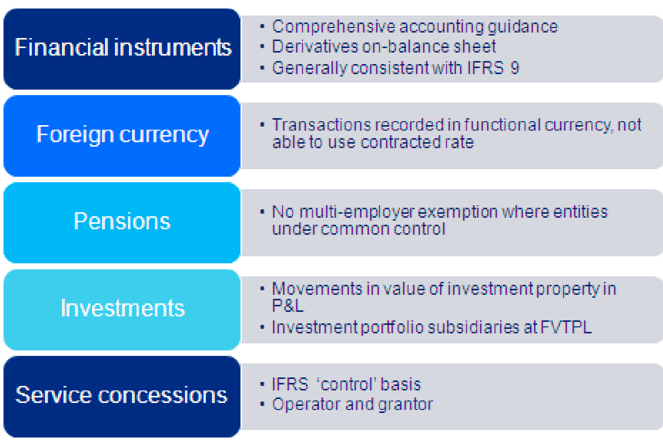


Figure 2.10: Key differences between full IFRS, existing UK GAAP and FRS102.

Full IFRS	Existing UK GAAP	FRS102
Format of primary statements		
Listed guidance in IAS 1	Per Companies Act	Per Companies Act
Disclosure		
No exemptions	Cash flow statement exemption for subsidiaries and small companies	Reduced disclosure regime for qualifying entities, includes cash flow statements
Discontinued operations		
One line net of tax presentation	Segmental presentation	Segmental presentation
Agriculture		
Fair value model	Cost model	Choice: cost or fair value
Property, plant and equipment		
Choice: cost or fair value	Choice: cost or fair value	Choice: cost or fair value
Goodwill		
No amortisation, annual impairment test	Amortisation – default 20 years	Amortisation – default 5 years
Development costs and Borrowing costs		
Mandatory capitalisation	Optional capitalisation	Optional capitalisation
Investment property		
Choice: cost or fair value in P&L	Fair value in STRGL	Fair value in P&L
Financial instruments		
Complex model involving cost and fair value	Few rules. Full IFRS option	Simplified model. Full IFRS option
Foreign exchange		
Functional currency model	Local currency model, with 'short cuts'	Functional currency model, no recycling
Deferred tax		
Temporary difference model	Timing difference model. No tax re-measurements until sale	Timing difference model. Tax recognised on re-measurements
Pensions		
No exemption for multi-employer schemes	Group exemption	No exemption for multi-employer schemes
Service concessions		
Control model, operator only	Risk/reward model	Control model, operator and grantor
Trust funds (ESOPs/EBTs)		
Included on consolidation only	Included in entity	Included in entity
Business combinations		
Fair value exchange model	Cost model	Cost model
Investments held in portfolio		
Fair value permitted only for 'investment entities' or interest <50%	Fair value if interest <50%	Fair value if 'held for resale', no % limit

He then moved on to comment briefly on the future of Statements of Recommended Practice (SORPs) and the respective ASB recommendations. SORPs covering pension funds, oil and gas accounting, limited liability partnerships, investment companies, authorised funds, social housing providers, and further and higher education will continue in existence and be updated for the draft FRS 102. Accounting for insurance businesses will merge with FRS 27 to provide a minimum UK treatment. SORPs for leasing and banking segments will be withdrawn when FRS 100–102 become effective.

Towards the end of his presentation, Andy gave a summary of the key differences between full IFRS reporting, existing UK and new UK GAAP under FRS 102. For brevity, all the key differences are shown in Figure 2.10.

In conclusion, Andy reflected on what the Accounting Council has achieved. Overall, three standards (FRS100–102) provide a comprehensive reporting framework. More widely, this could be considered by IASB with the UK showing leadership and clarity in accounting standards setting. He highlighted six key areas of achievement:

- UK GAAP based on an IFRS framework
- current IFRS/UK choices maintained
- apart from UK listed companies, no one is required to use full IFRS
- reduced disclosure available for subsidiaries
- fully integrated guidance for public-benefit entities
- time to prepare, with at least two years before mandatory adoption.

QUESTIONS

There followed a lively discussion with a number of questions from the audience. Bruce Parkard (investment analyst) and Terry Hunt raised the issue of retaining choice through UK GAAP, but at the potential expense of lack of comparability. Further, there was concern, given the importance of cash flow to businesses, that cash flow disclosure would no longer be required. On choice, Andy commented that FRED43/44 had removed choices (for example, that of capitalising development costs) and there had been a backlash of opinion against a lack of choice, so choice has been retained for the future. Comparability is achieved through clear disclosure, which is what the new framework seeks to ensure.

Robin Jarvis (ACCA) noted that IFRS for SMEs was currently under review – would the Accounting Council review this again post implementation? Andy explained that there is a three-year review cycle in order to give an initial period for assessment and to provide stability. Following on, Jill Collis (Brunel University) asked if the next version of FRSSE would reflect FRS102. Andy said that he wished to see a maximum level of harmonisation and to ensure no levels of increased reporting.

3. Discussion: summary of speakers' presentations

The five speakers presented a variety of diverse themes and ideas, with some commonalities in theme. A summary of their respective views follows, together with a brief synthesis of the themes.

1. PETER CLARK (IASB DIRECTOR OF RESEARCH)

Peter spoke from his background as director of research for the International Accounting Standards Board (IASB). The search for a conceptual theory has continued over many generations and Peter outlined the most recent developments in this area. He tackled a range of fundamental areas dealing with objectives and qualitative characteristics, elements (definition, recognition and de-recognition), measurement and the reporting entity). He defined the objective of the Conceptual Framework as providing information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. This is thus a continuation of the classic decision-making model that was first developed in the middle of the last century in the US. Controversially, the IASB considers stewardship as a subset of decision-making.

Peter outlined the two fundamental qualitative characteristics of relevance and faithful representation with four enhancing qualitative characteristics: comparability, verifiability, timeliness and understandability. Peter pointed out that whereas in the past the Conceptual Framework had been a joint collaborative venture between the US Financial Accounting Standards Board (FASB) and the IASB, it is now an IASB-only project. Peter defined an asset as a resource controlled by the entity, but a liability as a present obligation. Assets minus liabilities equal equity. Under this Conceptual Framework the statement of financial position comes first, as the income and expenses are derived from the asset and liability definitions. Peter showed that there were many definitional problems with these elements. He also addressed five fundamental questions concerning these principles. He said that the measurement section of the Conceptual Framework was underdeveloped. Nonetheless, it had been agreed that a reporting entity is defined as as a circumscribed area of economic activity and that group accounts should be used for general-purpose reporting. Peter finally considered several key questions relating to presentation, classification and disclosure.

2. CHRIS HODGE (DIRECTOR OF CORPORATE GOVERNANCE, FINANCIAL REPORTING COUNCIL).

Chris spoke from his position as a regulator, with a particular emphasis on corporate governance. His presentation covered recent developments in UK corporate governance, setting these within the wider context of the UK's regulatory framework. Statutory requirements are set out in the company and securities law. The UK Corporate Governance Code applies to all UK companies while the UK Stewardship Code sets out the principles to be followed by institutional investors. There was a high level of compliance (97%) by UK companies. Chris outlined the need for 'fair and balanced' reporting, better audit committee reporting and more consistent disclosures in certain areas. He highlighted three main areas of potential change: first, in remuneration reporting, where the government had developed new reporting requirements; second, the overall reporting framework and whether the annual report should be split into two parts (a strategic short report and a directors' statement); and, finally, ethics in the banking sector and whether ethics should come from within a sector rather than through enforcement. Chris next investigated the European context in which the UK operates. Each country pursues its own corporate governance regulations. The EU Audit Directive, however, was Europe wide. It has been implemented by several countries and there is a new audit regulation. He said that the idea of mandatory audit rotation was being discussed, and that five years was being considered. Chris thought this was too frequent. Other issues currently being discussed within the European Union are (1) the composition of the audit committee (whether financial experts should be increased from one to two), (2) gender diversity (whether there should be a 40% target) and (3) an EU Action Plan on corporate governance which would include directors' remuneration, reporting on risk and CSR, comply or explain, reporting by institutional investors and the role of proxy advisers. Overall, Chris highlighted five key areas that have been recurrent themes in both the UK and Europe: the role of the audit committee; non-financial reporting; challenges to 'comply or explain'; benchmarking, long-termism; and the role of shareholders in governance.

3. CHRISTOPHER NOBES (PROFESSOR OF ACCOUNTING, ROYAL HOLLOWAY, UNIVERSITY OF LONDON AND UNIVERSITY OF SYDNEY)

Christopher is a professor and, therefore, unlike the other speakers, he gave an academic perspective on accounting. His concern was the important subject of the adoption of IFRS by companies worldwide. The spread of IFRS is often portrayed in a very positive light. Christopher took a rather more pessimistic view. His basic premise was that there was still a motivation and scope for differing national versions of IFRS. There was, therefore, he argued, a persistent and, to some, surprising survival of national patterns of accounting despite the adoption of IFRS. Indeed, broadly speaking, companies in countries adopting IFRS continued their existing practices. Christopher outlined four major approaches: adopting all standards; adopting standard-by-standard (as issued by IASB, fully converged with IFRS or as issued by IASB but with deletions); making IFRS optional; and not fully converging with IFRS. There are eight ways that IFRS can differ from country to country: different versions of IFRS; translations; enforcement; compliance; gaps in IFRS; measurement estimations; first-time adoption; overt options; covert options. Christopher then provided a wealth of detailed information supporting his arguments. He showed across 16 policy choices that Australia, UK, France, Spain and Germany, all IFRS-adopting countries, had very different profiles. With some exceptions, he confirmed three working hypotheses: first, that there was more change on transition to IFRS than from 2005–8; second, there was more continental than Anglo-Saxon change and that the variance was greater for continental companies. Christopher also found that smaller companies made different policy choices from larger companies – this was significant across 13 out of 15 policy topics. He also looked at the history of the classification of accounting systems over time. He showed that from 1980 to 2008/9 there was still a broad agreement on international classification, for example, the UK and Australia were still in the same group. Overall, therefore, Christopher concluded that companies and countries tend to carry on doing what they were doing before. Continuity rather than change has predominated.

4. BRUCE PACKARD (INVESTMENT ANALYST)

Bruce spoke from the perspective of an analyst who specialises in, and therefore has first-hand experience of, the banking sector.. He took an original, long-term perspective on the recent global financial crisis. His starting point was the 1960s/1970s. He pointed out that until the 1960s the loan-to-deposit ratio was very low, below 0.3. There followed a steady increase in this ratio over time so that by 2008 the loan to deposit ratio was 1.4, with a UK funding gap of around £800 billion. The secondary banking crisis of the 1970s was driven by a growth in the Eurodollar market and the rise in importance of sovereign wealth funds. Bruce outlined a steady growth in the ratio of debt to disposable income from 1975 to 2007. When reviewing bank balance sheets though the early part of the 2000s it was harder than in the 1970s to see a clear picture of bank assets because of changes in asset definitions.

Bruce categorised bank stakeholders using a cultural theory of risk: he identified four different types of stakeholder. First, the savers, who can be seen as 'fatalists', second the Bank of England and the MPS who can be seen as being part of 'hierarchy and control'; third, bank managers and property developers, who could be categorised as 'self-interest maximisers' and, finally, Wall Street and journalists, who can be seen as 'egalitarians'. Overall, Bruce suggested that the nature and causes of the 1970s banking crisis and the global financial crisis of the 21st century were different. He argued that banks had lost their traditional function, which had been to keep savers' deposits safe and to supply credit for growth. Indeed, they had provided high-loan-to-value mortgages secured on overvalued assets. The fundamental activities of banks need to be revisited.

5. ANDY SIMMONDS (PARTNER, DELOITTE LLP; MEMBER, ACCOUNTING COUNCIL)

Andy provided a professional perspective on UK accounting regulation. He dealt with the important question of whether UK GAAP has a future now that IFRS is being widely used in the UK for corporate reporting. Andy started with a brief historical account. The EU presented its first regulation for listed groups in 2002, there was full IFRS adoption by listed companies in 2005 and then from 2007 to 2009 there was development by the IASB of IFRS for SMEs. Meanwhile, in the UK from 2010–15, the ASB and Accounting Council had gradually worked on FRS 100 (application of financial reporting requirements), FRS 101 (reduced disclosure framework) and FRS 102 (the Financial Reporting Standards applicable in the UK and Republic of Ireland). Andy outlined the detailed requirements for each standard. For FRS 100, there is no change for UK companies reporting under IFRS. For the UK, there is a choice of either opting for IFRS or adopting FRS 102 with reduced disclosures. Parents/subsidiaries of listed companies can either switch to group IFRS accounting policies with reduced disclosures (FRS 101) or stay on UK GAAP with some reduced disclosure (FRS 102). There are five significant areas of impact for UK GAAP reporting: financial instruments; foreign currency; pensions; investments; and service concessions. Many of the SORPS covering pensions, oil and gas accounting, limited liability partnerships, investment companies, authorised funds, social housing providers and further and higher education will continue in existence. There are some changes in the financial services sector. Accounting for insurance businesses will merge with FRS 27 while for leasing and banking segments the SORPS will be withdrawn. Andy then outlined the main differences between full IFRS, existing UK GAAP and FRS 102. Several major differences are that:

- for property, plant and equipment there is a choice between cost or fair value
- for goodwill the UK default position is five years rather that no amortisation
- for foreign currency UK GAAP uses the functional currency model with no recycling (IFRS has recycling), and
- for business combinations IFRS has the fair value exchange model while UK GAAP will have the cost model.

He highlighted six key areas of achievement: UK GAAP is based on the IFRS framework; current IFRS/UK choices have been maintained; only listed companies are required to use full IFRS; there is reduced disclosure available for subsidiaries; fully integrated guidance is available for public benefit entities; and organisations have at least two years to prepare before mandatory adoption.

Table 3.1: Thematic overview of five presentations

Speaker	Perspective	Key issues/findings
Peter Clark, director of research, IASB	Standard-setter	The current state of the search for a Conceptual Framework in accounting: objectives, qualitative characteristics of accounting, assets, liabilities, income and expenses, measurement and the reporting entity. Main objective was to provide users with information so that they could make decisions about resources. Stewardship was seen as a subset of decision-making. Assets and liabilities come first conceptually, with income and expenses being derived from them. Several fundamental questions about accounting issues and about presentation, classification and disclosure were raised.
Chris Hodge, director of corporate governance, Financial Reporting Council	Governance	The current state of corporate governance in the UK and Europe. The UK corporate governance code, the UK Stewardship Code. The need for 'fair and balanced reporting', better audit committee reporting. Current UK developments in remuneration reporting, the overall reporting framework and ethics in banking. The EU context: EU Directive and EU audit regulation. Discussions on mandatory audit rotation, composition of audit committee, greater diversity and an EU action plan on corporate governance.
Christopher Nobes, professor of accounting, Royal Holloway, University of London and University of Sydney	Academic	The adoption of IFRS by companies in different countries was investigated. Despite the adoption of IFRS there was a persistence of national patterns of accounting. Put simply, countries have continued doing what they had done before. This finding was very robust across different countries and policy issues. Different approaches to adopting IFRS were identified as well as different versions considered. Over time, international country classification has remained remarkably stable and smaller companies have made different policy choices to larger companies.
Bruce Packard, investment analyst	Investment analyst	A longitudinal perspective on bank lending was provided. The secondary banking crisis of the 1970s was compared with the global financial crisis of the late 2000s. Over 30 years, there has been a marked increase in the loan to deposit ratio from below 0.3 to 1.4. Banks' balance sheets had become harder to understand. Banks have also lost their traditional functions, which had been to keep savers' deposits safe and to lend money for growth, but in fact they have lent against overvalued assets.
Andy Simmonds partner, Deloitte LLP; member, Accounting Council	Professional and UK standard setter	The UK is going through a period of change in standard setting. Three major standards have been developed by the Accounting Standards Board/Accounting Council. FRS 100 presents the choices available to companies when applying the standards, FRS 101 provides a list of disclosure exemptions from full IFRS for qualifying entities, and then FRS 102 sets out the financial reporting standards applicable in the UK and Ireland. Choice is maintained for companies reporting in the UK.

4. Conclusions

The symposium was held at another interesting time of economic flux with continuing challenges to accounting and financial reporting. From an economic perspective there were some fragile signs of economic recovery within the UK and across Europe, the latter dominated by Germany and tempered by continuing financial difficulties and the debt repayment negotiations of Portugal, Italy, Greece and Spain (the so-called PIGS economies). In the UK, the Bank of England has maintained interest rates at near to 1% while simultaneously engaging in quantitative easing to stimulate economic recovery and additional lending in the real economy. At a political level, there continue to be protests and related industrial action against austerity and government budget cutbacks. As for accounting, some of the blame for the economic and financial crisis that was pointed at banks' financial statements and the role of accounting and auditors has receded as finance professionals begin to focus more on the future and less on the causes of past problems. There remains debate, nonetheless, on several core issues that were discussed at the symposium and have been widely considered elsewhere. Many of these issues are historic and some have been presented at previous symposia but the dynamics of accounting mean that there is no single or simple solution. Such issues include the Conceptual Framework and the purpose of accounting and financial reporting, asset and liability recognition and measurement, the convergence of reporting and IFRS adoption, national versus international accounting standards, and the regulatory frameworks.

Despite more widespread adoption of IFRS, there remain concerns over the actual level of this adoption in practice through financial reporting. Christopher Nobes, in his presentation, gave a comprehensive review of research to date into levels of IFRS adoption. He concluded that there are significant country differences and that the country influence in relation to IFRS-compliant disclosure is far stronger than other factors such as industry. These significant differences stem from the variety of ways in which IFRS adoption itself occurs, ranging from full adoption to a piecemeal standard-by-standard approach, through to the optional adoption of IFRS. Finally, there are a group of countries, including China, and most notably the US, that are not converged to IFRS. Even on the basis of individual standards, differences still persist owing to the use of different versions of IFRS, differences in linguistic translation and adoption of differing measurement bases. Thus at a superficial level it may be easy to say that global accounting is moving towards convergence, but evidence suggests that national accounting differences are still pervasive.

From this emerge two other issues saliently addressed by the symposium, each of which raises questions about national versus international accounting and reporting. First, with regard to the regulatory framework, Chris Hodge spoke in detail about the UK Corporate Governance Code and the task of raising the bar of best practice in governance disclosure. Chris hoped that best practice would encourage far more balanced corporate reporting in the future, away from the current 'good news' bias and the criticism of 'impression management' currently levelled at annual reports. Other governance issues still being discussed at a national level include, for instance, mandatory or voluntary rotation of auditors and the duration of audit appointment, audit committee membership, and the number of financial experts as well as gender balance on the board as a whole. National regulation may face outside challenges through EU regulation and in this instance the EU Audit Directive. Second, Andy Simmonds addressed the importance of national accounting standards in an international environment in great detail with his coverage of FRS 100, 101 and 102. These are designed to provide, at a national level, a comprehensive reporting framework. The result is that there is now a comprehensive reporting structure in place for different types of company. These range from full IFRS, which will be followed by listed companies, to different disclosure options for parents/subsidiaries of listed companies and for small enterprises. There is primacy for IFRS, but there is still a place for UK GAAP.

As has become a feature of these symposia, one issue continues to surface through the years, that of the Conceptual Framework. Inherent within this discussion is the role and purpose of financial reporting and issues of recognition and measurement. This year was no different. Peter Clark gave us an excellent overview of the current debate and raised discussion issues for the future, for instance the separation and distinction of other comprehensive income (OCI) and profit and loss, the inclusion of the business model in financial statements and whether there should be industry-specific presentational models.

Finally, what lessons can be learned from the past, or indeed is the past useful for understanding the future? The past may shape the future as can be seen today in the aftermath of the global financial and economic crises since 2007 and the challenges that these present business, standard setters, regulators and practitioners. Even so, as Bruce Packard illustrated, past events should not necessarily be used as a guide to the future. All crises are different and stem from different, though perhaps related, causes. The lessons of the

1970s secondary banking crisis are less relevant to us today as the complexity of the financial system has greatly increased and the fundamental principles of asset cover to liabilities has been eroded over time. It may be advisable to think about the role of institutions, standard setters and regulators rather than be sucked into the minutiae of individual accounting transactions and the complexity of related disclosures.

All the key issues discussed at the symposium are unlikely to be addressed in the short term, they are all long-term issues that may shape the future of accounting into the 2020s. Most of these issues are not new, but rather have been the subject of reconsideration in the aftermath of the global financial crisis. As demonstrated by the conceptual theory debate, which is now under way following the IASB's July 2013 Discussion Paper, there is no sign of a diminution of debate about the fundamentals of accounting.

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ACCA 29 Lincoln's Inn Fields London WC2A 3EE United Kingdom / +44 (0)20 7059 5000 / www.accaglobal.com